

REDACTED

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

October 22, 2003

ORDER

BANGOR GAS COMPANY LLC,
Proposed Cost of Gas Adjustment
(\$ 4703) (Winter 2003-2004)

Docket No. 2003-606

BANGOR GAS COMPANY LLC,
Proposed Cost of Gas Adjustment
(\$4703) (Summer 2003)

Docket No. 2003-111

WELCH, Chairman; DIAMOND and REISHUS, Commissioners

I. SUMMARY

We approve Bangor Gas Company LLC's (Bangor Gas) proposal to modify its Cost of Gas Adjustment (CGA) methodology to a monthly reconciliation, rather than over 6-month winter and summer periods, as discussed further in this Order, for implementation on November 1, 2003.

II. PROCEDURAL HISTORY

On August 8, 2003, pursuant to our April 29, 2003 Order in Docket No. 2003-111, Bangor Gas filed a proposal to reduce the price distorting effect of large under- and over-accruals that results from differences in the actual commodity price of gas paid by Bangor Gas and the price estimated at the start of the 6-month seasonal cost of gas period. Bangor Gas proposes to develop a monthly cost of gas adjustment known as the Standard Price Option (SPO) beginning November 1, 2003. The SPO would displace the current seasonal CGA methodology, although the calculation and elements of its Energy Charge would be similar. Under this proposal, Bangor Gas would adjust the Energy Charge monthly, rather than twice each year, to better reflect in rates the market price of natural gas and to avoid large under- or over-collections. Bangor Gas also proposes to make available to its customers a budget plan for spreading a customer's estimated annual costs across a full twelve months of bills. Bangor Gas has also proposes to offer a Fixed Price Option and a Maximum Price Option as alternatives for customers, to become available November 1, 2004. However, it specifies that the availability of these options will depend on customer interest.

On August 15, 2003, Bangor Gas filed with this Commission an application pursuant to 35-A M.R.S.A. § 4703 and Chapter 43(2) of the Commission's Rules for approval of its proposed cost of gas adjustment for the upcoming winter period

November 1, 2003 through April 30, 2004.¹ The filing would increase Bangor Gas's winter period CGA rates to reflect both the increased current market price of gas as well as a recovery of half of last winter period's under-collection of gas revenues.

On August 22, 2003, the Commission issued a Notice of Proceeding concerning both these filings to interveners in prior CGA cases and by publication in newspapers of general circulation in Bangor Gas's service area. The Office of the Public Advocate filed a timely petition to intervene, which was subsequently granted by the Hearing Examiner. In addition, the Hearing Examiner granted Maine Natural Gas (MNG) discretionary intervention for purposes of possible limited participation in the event policy issues arose in the consideration of Bangor Gas's modification of its gas rate methodology. MNG does not seek, and is not granted, access to confidential information filed by Bangor Gas. On October 6, 2003, the Hearing Examiner issued Temporary Protective Order No. 1 protecting Gas Supply Bid, Usage, Facilities, Marketing and Customer Information.

On September 24, 2003, the Hearing Examiner held a preliminary hearing and technical conference to discuss Bangor Gas's filings. On October 1, 2003, in response to Oral Data Requests, Bangor Gas filed proposed changes to its rate schedules and terms and conditions of service that clarified its proposal. Subsequent phone conferences were held on October 7 and 8 to further discuss the Bangor Gas' proposals, modifications thereof, and responses to oral data requests issued at the initial technical conference.

On October 15, 2003, the Hearing Examiner issued an Examiner's Report. On October 17, 2003 Bangor Gas filed minor editorial corrections. The OPA also filed comments on October 17, 2003 seeking development of adequate customer education of BGC's new monthly CGA and its Budget Plan.

III. DESCRIPTION OF BANGOR GAS PROPOSAL

A. Monthly Cost of Gas

Bangor Gas's current CGA mechanism provides for changes twice a year, winter and summer, with additional mid-season adjustments when necessary. The Company proposes to change to a monthly CGA mechanism largely because the current semi-annual mechanism has resulted in relatively large differences between the rates charged and actual costs incurred, due to the increasing gas price volatility experienced in the past few years. For example, in the 2002 - 2003 winter season, based on then-current market prices, the initial CGA rate in November was set at \$4.55

¹ Given that Bangor Gas's revised cost of gas proposal has not yet been approved, the winter CGA filing is made consistent with Bangor Gas's current tariff requirements. Should the proposed monthly mechanism be approved, Bangor Gas would be required to file conforming rate schedules prior to its implementation on November 1, 2003.

per decatherm (Dth). Due to subsequent rapid gas market price increases, we approved an increase in the Company's CGA rate of 35%, to \$6.18, effective February 1, 2003. Despite this mid-season rate adjustment, the Company was only able to recover about two-thirds of its actual gas costs during the winter period.² This resulted in a large Past Gas Cost Account balance that the parties agreed should be spread over two subsequent winter seasons, rather than one, to mitigate price distortion and burdens to customers. Substantial price distortions can be misleading to customers making fuel cost comparisons and usage decisions. It serves the interests of both customers and the utility to avoid distortions in price signals when possible.

Accordingly, Bangor Gas now proposes a monthly mechanism whereby the rate would change each month, thereby better tracking the market price of gas. The cost of gas to be charged each month would be based upon the estimated futures cost for that month on the date the NYMEX contract closes. Bangor Gas believes that this would be a better estimate of the Company's actual gas cost.

Bangor Gas's initial proposal was not clear as to how it proposed to reconcile any differences between its estimated and actual cost of gas. Subsequently, Bangor Gas proposed to reconcile any differences in the month following the billed month based upon its best estimate as to what that difference would be. Any further differences would be reconciled in the second month following the billing month.

We experienced high gas price volatility last winter period. For example, in January and February 2003, the daily prices were approximately \$3 to \$4 per decatherm higher, on average, than the futures prices at the beginning of the month. If Bangor Gas had used a monthly clause last year, it would have reduced its under-recovered costs by about one-half of under-recoveries under its present CGA mechanism.³ Yet, Bangor Gas demonstrated that if its proposal had been in place during the 2002-03 season, it would have needed to charge customers in March bills a substantial additional charge to recover the February under-collection, even having set the February rate at the beginning of the month based on February 2003 futures prices, due to the fact that price volatility occurs within months as well.⁴ This can result in doubly high rates for customers.

² Bangor Gas under-collected its actual costs by approximately [BEGIN
CONFIDENTIAL INFORMATION]
[END CONFIDENTIAL INFORMATION]

³ The difference between Bangor Gas's estimated and actual commodity costs for the winter 2003-2004 period would have been about [BEGIN CONFIDENTIAL
INFORMATION]
[END CONFIDENTIAL INFORMATION]

⁴ The additional charge would have been [BEGIN CONFIDENTIAL
INFORMATION]
[END CONFIDENTIAL
INFORMATION]

After further discussion among the parties, Bangor Gas filed a modified proposal that would adjust the Energy Charge on a monthly basis but would subject any past gas cost reconciliation amount to a cap of positive or negative \$1.44 per decatherm.⁵ Any reconciliation amount that would not be recovered subject to this cap would be accumulated and recovered in the following months still subject to the cap.

B. Customer Payment Plan

Bangor Gas's August 8, 2003 filing proposed a customer payment plan referred to as the "Level Payment Plan." Under this plan, Bangor Gas would, based upon 12 months historical usage data and estimated gas costs for the year, set a monthly payment amount for customers who sign up for the program. The payment amount would be subject to adjustment at the end of the 12 months to adjust for any under- or over-collections. In addition, Bangor Gas could also reset the monthly payment amount to reflect changes in the cost of gas or to collect or return any accumulated under- or over-collections. Bangor Gas proposed that in the initial year, eligible customers could sign up for the plan by October 31, 2003 to activate for November billing but in subsequent years could sign up at any time but the plan would not start until the following July.

At the September 24, 2003 technical conference, the parties discussed this proposal and expressed concern that the title "Level Payment Plan" could be misleading because it was possible, perhaps likely, that the payment would not remain at the initial level for a 12-month period should market volatility such as that seen in 2002-2003 occur. Bangor Gas's supporting worksheets showed the payment amount changed several times during the year from an initial level of \$37 to a high of \$100 for the final few months of the year.⁶ Also, the plan description in the terms and conditions of service did not clearly state how and when the Company would make changes to the customer's monthly bill amount.

On October 1, 2003, in its response to Oral Data requests, Bangor Gas filed a modified version of the plan changing its name to "Budget Payment Plan" and revising its proposed terms and conditions to fully explain the situations where the monthly payment could change. The modified proposal did not change how Bangor Gas would calculate the monthly payment. The modified plan allows customers to sign up at any time for the plan but the monthly payment would not start until the subsequent October.

⁵ There is no great significance to the choice of \$1.44 per Dth as the cap. However, when combined with the charge to recover existing under-collections already on the books from the winter 2003-2004 period, this would lead to an overall cap on the charge for prior under-recoveries to approximately \$2.00 per Dth.

⁶ The supporting worksheets were illustrative and not based upon actual costs incurred.

C. Other Customer Pricing Options

Bangor Gas's August 8, 2003 filing also proposes two additional pricing options that would be available beginning November 1, 2004. The Fixed Price Option would lock in a specified gas price for a period of time. The Maximum Price Option would establish a cap for the price the customer would pay for gas during the term of the option. Both options would require those customers to pay an additional amount for the stability that the plans would provide.

The parties have not had a full opportunity to review the details of Bangor Gas's proposed Fixed and Maximum Price Options. Accordingly, the parties propose to continue their review of these proposals in hopes of reaching resolution on them prior to the end of 2003.

D. Treatment of Winter 2002 – 2003 Under-Collection and Summer 2003 Over-Collection

Consistent with the Order in *Bangor Gas Company LLC, Proposed Cost of Gas Adjustment (§ 4703) (Summer 2003)*, Docket No. 2003-111, Bangor Gas filed to recover its Winter 2002 – 2003 under-collection over two winter periods beginning with this period. The April 29, 2003 Order stated:

Bangor Gas does not separate its customer classes into heating and non-heating customers so the Company cannot readily set rates that differentiate customers with lower use year-round and those with higher winter use (typically heating load). Because of this, and because the rate difference between winter-only recovery and Bangor Gas's 24-month proposal is manageable, both the Advisory Staff and the OPA concluded that recovery of the 2002-2003 winter under-collection over two winter periods is preferable. Bangor Gas also has agreed to the two-winter recovery option.

To facilitate the transition to the monthly mechanism, the parties recommend that the Commission allow Bangor Gas to net the anticipated Summer 2003 over-collection against the Winter 2002-2003 under-collection, then collect that net under-collection from its customers by way of a uniform surcharge over the next twenty-four months beginning with November 2003.⁷ Spreading the large, existing under-collection over a sufficiently long period of time through a uniform surcharge will help to mitigate the price distorting effect of this recovery.

⁷ While the surcharge amount of \$0.56 per decatherm was calculated assuming a recovery period of 24-months, the parties agree that Bangor Gas should file an adjustment to its rates when it foresees that the amount will be fully, or substantially, recovered.

IV. ANALYSIS AND DECISION

A. Monthly Cost of Gas

This is the first monthly CGA proposed for our approval by a gas utility. The authority to establish cost of gas adjustments is provided in 35-A M.R.S.A. § 4703. Chapter 430 of our Rules, adopted pursuant to Section 4703, currently governs cost of gas adjustments. However, 35-A M.R.S.A. § 4706 (8) authorizes the Commission, as part of the implementation of alternative ratemaking mechanisms under that section, to waive the requirements of Section 4703 “to the extent necessary to promote efficiency in operation, appropriate financial incentives, rate stability or equitable cost recovery.” Bangor Gas’s modified CGA proposal falls within the authority of Section 4706, as we previously approved an alternative rate mechanism for Bangor Gas in Docket No. 97-795.

A monthly cost of gas rate moves away from the seasonal rates that have been maintained in the past and which are directed in Chapter 430.⁸ In evaluating Bangor Gas’s proposal, we should consider whether departure from the policy established by Chapter 430 is warranted in this circumstance. We note that the effect of the rolling subsequent month recovery is to shift recovery of winter month costs into May and recovery of summer period costs into November, a pattern which extends the seasonal recovery period, but does not otherwise disturb the close relationship to the season in which the over- or under-collection is incurred.

In addition to reducing the accumulation of large past gas cost reconciliations and the cumbersome price distortions they create in subsequent seasons, the monthly mechanism proposal should provide a better price signal to Bangor Gas’s customers so they can more quickly react to changes in the cost of gas. We conclude that this methodology will achieve the goals articulated in Section 4706. Recovery of under- and over-collections in the subsequent month, a point that is proximate in time rather than 6 months later, also serves the principles of intergenerational equity among utility customers. Rates that better track market prices will also enable potential or existing customers of Bangor Gas to evaluate their energy options on a like basis.

The creation of a cap on the monthly past gas cost reconciliation addresses the concern that large unexpected increases in the cost of gas in one month would cause an excessively large rate increase in the following month. The cap alleviates the concern that the customer could experience very large monthly bills when a dramatic increase in the current month’s gas prices and a large under-collection from the previous month converge. The cap ensures that while customers would see the

⁸ Pursuant to Chapter 110, § 103 of our Rules, we may waive or exempt entities from provisions of our rules when good cause exists. A waiver or exemption from Chapter 430, as necessary to affect the results delineated in Section 4706, is also consistent with the intent of that provision.

market price changes in their bills, large past gas cost reconciliation amounts will be smoothed out.

We find Bangor Gas's revised monthly CGA proposal reasonable and we approve it. Bangor Gas should file with the Commission copies of educational materials that it intends to provide to its customers to notify them of the changes in how they will be charged for the cost of gas, so that we may review them for adequacy.

B. Budget Payment Plan

The revised Budget Payment Plan provides customers a tool to stabilize bills over a yearly period. Bill averaging provides stability relative to the SPO even though the Company may change the monthly payment amount when it deems necessary during the year to avoid a large accrual payable at the end of the 12-month period. The plan is similar to budget plans at other Maine LDCs.

In its comments, the OPA indicated its concern that customers will misinterpret the Budget Payment Plan and expect that the fixed monthly payment will cover their annual cost. However, the plan as proposed allows for adjustments throughout the year as well as in the final month of the plan. The OPA states that while periodic adjustments are appropriate in order to avoid a substantial reconciliation, care must be taken to ensure that customers fully understand that their actual monthly payments will likely vary. The OPA recommended that these possibilities be fully and clearly communicated to customers prior to their participation in the plan. We concur that customer's should be made aware of the plans' details in order to make an informed decision on whether to participate.

We find the Budget Payment Plan to be a reasonable and potentially useful way for customers to manage their payment obligations to the utility and we approve it. We direct Bangor Gas to provide us with copies of any educational materials provided to its customers related to the Budget Payment Plan. In addition, Bangor Gas should provide the Commission a sample bill for a customer that is on the Budget Payment Plan. Both these items will allow the Commission's staff to review how BGC plans to communicate with its customers and ensure that the communications are adequate to acquaint customers with the new Budget Payment Plan. In addition, BGC should provide us copies of its completed educational materials so that we can better assist customers that may direct their questions to the Commission.

C. Other Pricing Options

We agree with the parties' recommendation to defer any decision concerning other options proposed until the parties have had additional time for review. Parties and Bangor Gas should notify the Commission if they wish further consideration of these options.

V. CONCLUSION

For the reasons described above, we determine that Bangor Gas's proposed monthly CGA methodology will produce rates that will reasonably mitigate large over- and under-accruals and the price distortions in the following like season that Bangor Gas and its customers have experienced in the last three years. The monthly adjustment also sends a more contemporaneous price signal to Bangor Gas's customers, thereby allowing them to make appropriate usage decisions based upon the economics of the price of gas.

Therefore, we

O R D E R

1. That Bangor Gas Company LLC's proposed monthly Cost of Gas Adjustment as filed on October 16, 2003 is approved;
2. That Bangor Gas Company LLC's Rate Schedules as listed on Attachment 1 and filed on October 16, 2003 are approved;
3. That Bangor Gas Company LLC's format for Rate Schedule Sheet Nos. 48 and 49 as filed on October 22, 2003 is approved.
4. That Bangor Gas Company LLC will, by the third business day prior to the first day of the month, set its cost of gas rate for that month and file this rate with the Commission electronically and will provide its customers with this rate on its web page; and
5. That Bangor Gas Company LLC and the parties will continue to address the other pricing options proposed in the August 8, 2003 filing.

Dated at Augusta, Maine, this 22nd day of October, 2003.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Diamond
 Reishus

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.

Attachment 1

Sheet No.	Revision Number
2	First
30	Second
30.1	First
31	First
32	First
33	First
35	First
36	First
60	Original
61	Original